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Notes

# IRAs: Benchmarking for the Post-TRA '97 World

**by Paul Yakoboski, EBRI**

### *Introduction*

Individual retirement accounts (IRAs) are once again in vogue as a result of the Taxpayer Relief Act of 1997 (TRA '97), which relaxed eligibility requirements for tax-deductible contributions to traditional IRAs and created two new forms of IRAs—the Roth IRA and the education IRA.[1] Financial institutions are once again aggressively marketing IRAs, and early indications are that these accounts are regaining popularity with savers.[2]

This article provides benchmark data from the pre-TRA '97 world of IRAs against which future data on IRA ownership, contributions, and asset levels (in the aggregate, and cross tabulated by income and age) can be compared. These data are based on tabulations of a new dataset created by the Internal Revenue Service (IRS) that merges a sample of Form 1040 filings with the corresponding information form filings.

### *1993 Ownership, Assets, and Contributions*

The number of individuals owning an IRA stood at 35.8 million in 1993 (table 1). Total IRA assets at this time were $987 billion, for an average balance of $27,583 per IRA owner.[3] Most IRA owners had relatively small total balances.[4] Thirty-one percent had $5,000 or less in their IRA(s), 16 percent had total IRA balances of $5,001–$10,000, 28 percent had $10,001–$25,000, 15 percent had $25,001–$50,000, 6 percent had $50,001–$100,000, and 4 percent had total balances of over $100,000 (calculated from table 1).

IRA contributions (excluding rollovers) were made by 8.1 million individuals (table 2), or 23 percent of all IRA owners in 1993. The total amount contributed was $12.4 billion, for an average contribution of $1,535 (table 2). Total IRA contributions were down 19 percent from their 1990 level of $15.3 billion and down 32 percent from the 1987 level of $18.3 billion. However, total IRA assets were up 52 percent from their 1990 level of $650 billion and up 161 percent from the 1987 level of $379 billion (table 3).

*By Earnings*—Thirty-three percent of all IRA owners had no earned income in 1993. Earned income includes wages plus deferred compensation, but does not include self-employment income in this dataset; this partially explains what may seem to some a large proportion of IRA owners reporting zero earnings. In addition, many IRA owners are also likely to be retirees with no earned income.[5] Twenty-three percent had earned income of less than $20,000, 28 percent had earned income of $20,000–$49,999, and 15 percent had earned income of $50,000 or more (table 1).

Table 1
**Individual Retirement Account (IRA) Ownership and Account Balances, 1993**

| | Total | | | Number of Owners by Distribution of Account Balance (1,000s) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | IRA Owners (1,000s) | Balance ($ millions) | Average Balance | $5,000 or less | $5,001–$10,000 | $10,001–$25,000 | $25,001–$50,000 | $50,001–$100,000 | Over $100,000 |
| Total | 35,793 | $987,267 | $27,583 | 11,018 | 5,870 | 9,968 | 5,338 | 2,084 | 1,516 |
| Income[a] | | | | | | | | | |
| No earned income | 11,734 | 416,094 | 35,461 | 3,053 | 1,839 | 3,433 | 1,835 | 841 | 733 |
| $1–$19,999 | 8,401 | 177,524 | 21,130 | 3,152 | 1,307 | 2,108 | 1,154 | 428 | 251 |
| $20,000–$49,999 | 10,153 | 178,417 | 17,573 | 3,652 | 1,877 | 2,698 | 1,356 | 388 | 181 |
| $50,000–$74,999 | 3,050 | 73,876 | 24,220 | 779 | 565 | 957 | 463 | 181 | 106 |
| $75,000–$99,999 | 1,101 | 37,299 | 33,875 | 224 | 133 | 351 | 248 | 94 | 52 |
| $100,000 or more | 1,354 | 104,058 | 76,869 | 158 | 148 | 420 | 282 | 153 | 193 |
| Age | | | | | | | | | |
| Under 30 | 1,452 | 5,419 | 3,731 | 1,145 | 191 | 101 | 13 | 2 | 2 |
| 30–39 | 6,371 | 69,334 | 10,882 | 3,142 | 1,167 | 1,384 | 500 | 141 | 37 |
| 40–49 | 8,748 | 177,092 | 20,244 | 2,829 | 1,634 | 2,416 | 1,240 | 419 | 210 |
| 50–59 | 8,343 | 251,255 | 30,116 | 2,018 | 1,346 | 2,648 | 1,407 | 536 | 388 |
| 60–69 | 7,776 | 336,901 | 43,327 | 1,337 | 987 | 2,494 | 1,667 | 702 | 590 |
| 70 or older | 3,103 | 147,266 | 47,463 | 548 | 546 | 924 | 511 | 285 | 289 |

Source: Employee Benefit Research Institute/Internal Revenue Service tabulations of the Tax Year 1993 Information Returns Program File.
[a]Wages plus deferred compensation.

The average IRA balance for those with no earned income was $35,461. Among those with earnings, the average balance increased with earnings from $21,130 for those earning less than $20,000 to $76,869 for those earning $100,000 or more (table 1).

Twenty percent of IRA contributors had no earned income in 1993.[6] Not surprisingly, given income restrictions on eligibility for deductibility of IRA contributions, most contributors reporting earned income had relatively modest earnings. Thirty-two percent of contributors earned less than $20,000, and 34 percent earned $20,000–$49,999 (table 2).

There was limited variation in contribution levels (again, not surprising given the cap of $2,000 on annual contributions). IRA contributors reporting no earned income had an average contribution of $1,455 in 1993. Those with earned income of less than $20,000 had an average contribution of $1,533, while those earning $100,000 or more contributed $1,982 on average (table 2).

*By Age*—Nine percent of IRA owners are age 70 or older, 22 percent are ages 60–69, 23 percent are ages 50–59, 24 percent are in their 40s, 18 percent are ages 30–39, and 4 percent are under age 30. Not surprisingly, average IRA balances increase with owner age. The average balance for those under 30 was $3,731, compared with an average balance of $47,463 for those age 70 and older (table 1).

Most IRA contributors in 1993 tended to be middle-aged. Twenty-seven percent were ages 40–49, and an additional 26 percent were ages 50–59. Twenty-one percent were in their 30s, and 9 percent were under age 30 (calculated from table 2). The average contribution did increase with age to age 70. Among contributors under age 30, the average contribution was $1,191, while for those in their 60s it was $1,690. For contributors age 70 and older, the average contribution was $1,335 (table 2).

### *Implications*

In 1993, there were 183.8 million individuals age 20 and older in the United States. Of these, 19 percent owned an IRA. Such low ownership rates are not surprising; other EBRI research has found that less than 10 percent of those eligible to make a deductible IRA contribution in the pre-Roth world chose to do so.[7] Whether recent changes to IRAs (including the creation of new types of IRAs) and the subsequent increased marketing of these accounts will result in a widespread increase in IRA ownership and asset levels remains to be seen. This discussion provides the benchmark data against which future "success" can be gauged.

### *Endnotes*

[1] *For a detailed discussion of these changes, see Paul Yakoboski and Bill Pierron, "IRAs: A Whole New Ballgame,"* EBRI Notes, *No. 9 (September 1997): 1–4.*

[2] *The Investment Company Institute recently conducted a nonrandom survey of mutual funds regarding the number of accounts and total assets contributed to Roth IRAs as of April 15, 1998, and to education IRAs as of March 31, 1998. Survey results are based on responses from 58 firms, representing 81 percent of the*

Table 2
**Individual Retirement Account (IRA) Contributions, 1993**

| | IRA Contributors (1,000s) | Total Contribution ($ millions) | Average Contribution |
|---|---|---|---|
| Total | 8,086 | $12,414 | $1,535 |
| Income[a] | | | |
| No earned income | 1,619 | 2,355 | 1,455 |
| $1–$19,999 | 2,552 | 3,913 | 1,533 |
| $20,000–$49,999 | 2,776 | 4,130 | 1,488 |
| $50,000–$74,999 | 573 | 932 | 1,628 |
| $75,000–$99,999 | 251 | 457 | 1,825 |
| $100,000 or more | 316 | 626 | 1,982 |
| Age | | | |
| Under 30 | 708 | 844 | 1,191 |
| 30–39 | 1,720 | 2,354 | 1,368 |
| 40–49 | 2,219 | 3,481 | 1,569 |
| 50–59 | 2,062 | 3,431 | 1,664 |
| 60–69 | 1,315 | 2,222 | 1,690 |
| 70 or older | 62 | 82 | 1,335 |

Source: Employee Benefit Research Institute/Internal Revenue Service tabulations of the Tax Year 1993 Information Returns Program File.
[a]Wages plus deferred compensation

*assets of the largest 25 mutual fund firms. Respondents represented 57 percent of the assets of all mutual fund firms.*

*As of April 15, 1998, approximately 815,000 contribution Roth IRA accounts had been established, and $987 million was held as assets in these accounts. As of March 31, 1998, about 96,000 education IRA accounts had been established, and $38 million in assets was held in these accounts.*

[3] *Data are based on a sample of IRS Form 5498 filings. IRS Form 5498, Individual Retirement Arrangement Information, is filed by plan trustees for each person for whom an IRA or simplified employee pension (SEP) is maintained. Information reported on Form 5498 includes regular contributions, rollover contributions, and fair market value of the account.*

[4] *Figures are for combined IRA account balances if an individual owns more than one IRA account.*

[5] *Also, there is an imperfect matching in some individual cases of information form filings, such as the Form 5498, with 1040 filings of individuals in a given calendar year that could result in zero reported income for some IRA owners who actually do have earned income.*

[6] *Again, this result is partly a function of a dataset limitation—earned income includes wages plus deferred compensation, but does not include self-employment income in this dataset. Individuals with the latter form of income, but not the former, would show zero earned income. Also, there is an imperfect matching in some individual cases of information form filings, such as the Form 5498, with 1040 filings of individuals in a given calendar year that could result in zero reported earned income for contributors in some cases.*

[7] *See Paul Yakoboski, "IRA Eligibility and Usage,"* EBRI Notes, *No. 4 (April 1995): 5–7.*

Table 3
**Individual Retirement Account (IRA) Trends**

| | Contributions[a] | Assets |
|---|---|---|
| | ($ millions) | |
| 1987 | $18,265 | $378,959 |
| 1988 | 16,657 | 557,594 |
| 1989 | 15,478 | 577,879 |
| 1990 | 15,268 | 650,386 |
| 1993 | 12,414 | 987,267 |

Source: Employee Benefit Research Institute/Internal Revenue Service tabulations of the Tax Year 1993 Information Returns Program File and Form 5498 filings for tax years 1987 through 1990.
[a]Does not include rollover contributions.

# IRA Assets Grew by 23 Percent During 1997

**by Paul Fronstin, EBRI**

### *Introduction*

Total assets held in individual retirement accounts (IRAs) reached a high of $1.9 trillion as of year-end 1997 (table 4).[1]

Between 1996 and 1997, IRA assets grew 23.4 percent, compared with a growth rate of 16.7 percent between 1995 and 1996 and an average annual growth rate of 14.6 percent between 1981 and 1996. Most of the recent growth was due to rollovers from qualified retirement plans, not from new contributions to the accounts.[2]

Recent evidence suggests that distributions are increasingly likely to be rolled over into another qualified retirement vehicle, such as an IRA.[3]

Recently enacted legislation designed to encourage retirement savings may increase new contributions to IRA accounts in the future. The Small Business Job Protection Act of 1996 allows for larger tax-preferred contributions to IRAs for nonworking spouses.[4]

In addition, the act created a new retirement savings vehicle, the savings incentive match plan for employees (SIMPLE), which can be set up as an IRA for each employee or as a 401(k) plan. Furthermore, the recently enacted Taxpayer's Relief Act of 1997 (TRA '97) ex-

panded eligibility for currently existing deductible IRAs and allows the accumulated funds to be used, without penalty, for purposes other than retirement. TRA '97 also created a new, nondeductible IRA, known as the Roth IRA, which can also be used to save for retirement, first-time home purchase, and college. Finally, it created a nondeductible education IRA.

Table 4
**Distribution of Individual Retirement Account Assets by Financial Institution, 1981–1997**

| Year | Total Assets | Commercial Banks | Thrifts | Mutual Funds | Credit Unions | Life Insurance | Stock Brokerage Self-Directed Accounts | Percentage Increase in Assets from Previous Year |
|---|---|---|---|---|---|---|---|---|
| | | | | (billions) | | | | |
| 1981 | $ 36.9 | $ 8.1 | $ 18.9 | $ 2.6 | $ 0.2 | $ 3.2 | $ 3.9 | — |
| 1982 | 66.3 | 17.5 | 27.3 | 5.8 | 1.6 | 5.6 | 8.5 | 79.8% |
| 1983 | 104.6 | 30.0 | 36.8 | 11.3 | 5.0 | 8.6 | 13.0 | 57.8 |
| 1984 | 155.5 | 44.6 | 50.8 | 17.9 | 7.8 | 11.9 | 22.6 | 48.6 |
| 1985 | 234.7 | 60.6 | 65.2 | 33.8 | 13.9 | 15.8 | 45.4 | 50.9 |
| 1986 | 319.2 | 72.9 | 77.4 | 58.5 | 20.5 | 20.5 | 69.4 | 36.0 |
| 1987 | 389.7 | 83.6 | 87.2 | 79.8 | 22.6 | 25.5 | 91.0 | 22.1 |
| 1988 | 451.3 | 94.8 | 97.3 | 96.4 | 25.0 | 32.7 | 105.1 | 15.8 |
| 1989 | 546.0 | 110.2 | 106.8 | 127.1 | 26.2 | 49.0 | 126.7 | 21.0 |
| 1990 | 634.4 | 131.4 | 102.1 | 146.8 | 32.1 | 53.0 | 169.0 | 16.2 |
| 1991 | 773.5 | 148.7 | 101.4 | 197.9 | 32.3 | 49.7 | 243.5 | 21.9 |
| 1992 | 863.6 | 148.1 | 94.0 | 250.5 | 32.5 | 55.6 | 283.0 | 11.7 |
| 1993 | 993.0 | 145.5 | 85.0 | 341.8 | 32.4 | 69.5 | 318.8 | 15.0 |
| 1994 | 1,079.4 | 144.1 | 78.7 | 372.3 | 32.1 | 78.7 | 373.5 | 8.7 |
| 1995 | 1,352.0 | 150.5 | 76.6 | 508.9 | 33.5 | 94.3 | 488.2 | 25.3 |
| 1996 | 1,578.4 | 151.3 | 72.9 | 642.0 | 34.2 | 110.3 | 567.7 | 16.7 |
| 1997 | 1,948.2 | 156.2 | 67.9 | 822.1 | 34.4 | 129.1 | 738.5 | 23.4 |
| | | | | (percentage of total assets) | | | | |
| 1981 | 100.0% | 22.0% | 51.2% | 7.1% | 0.5% | 8.7% | 10.5% | |
| 1982 | 100.0 | 26.4 | 41.2 | 8.8 | 2.4 | 8.4 | 12.8 | |
| 1983 | 100.0 | 28.7 | 35.2 | 10.8 | 4.8 | 8.2 | 12.4 | |
| 1984 | 100.0 | 28.7 | 32.7 | 11.5 | 5.0 | 7.7 | 14.5 | |
| 1985 | 100.0 | 25.8 | 27.8 | 14.4 | 5.9 | 6.7 | 19.4 | |
| 1986 | 100.0 | 22.8 | 24.2 | 18.3 | 6.4 | 6.4 | 21.7 | |
| 1987 | 100.0 | 21.5 | 22.4 | 20.5 | 5.8 | 6.5 | 23.3 | |
| 1988 | 100.0 | 21.0 | 21.6 | 21.4 | 5.5 | 7.2 | 23.3 | |
| 1989 | 100.0 | 20.2 | 19.6 | 23.3 | 4.8 | 9.0 | 23.2 | |
| 1990 | 100.0 | 20.7 | 16.1 | 23.1 | 5.1 | 8.4 | 26.6 | |
| 1991 | 100.0 | 19.2 | 13.1 | 25.6 | 4.2 | 6.4 | 31.5 | |
| 1992 | 100.0 | 17.1 | 10.9 | 29.0 | 3.8 | 6.4 | 32.8 | |
| 1993 | 100.0 | 14.7 | 8.6 | 34.4 | 3.3 | 7.0 | 32.1 | |
| 1994 | 100.0 | 13.3 | 7.3 | 34.5 | 3.0 | 7.3 | 34.6 | |
| 1995 | 100.0 | 11.1 | 5.7 | 37.6 | 2.5 | 7.0 | 36.1 | |
| 1996 | 100.0 | 9.6 | 4.6 | 40.7 | 2.2 | 7.0 | 36.0 | |
| 1997 | 100.0 | 8.0 | 3.5 | 42.2 | 1.8 | 6.6 | 37.9 | |

Source: Investment Company Institute.

### *Asset Trends*

Between 1981 and 1997, the allocation of IRA assets continued to shift, with a larger percentage of assets held in stock brokerage self-directed accounts and mutual funds and a relatively smaller percentage held in other financial institutions. IRA assets held in stock brokerage self-directed accounts grew from $3.9 billion in 1981 to $738.5 billion in 1997, representing an increase from 10.5 percent of IRA assets to 37.9 percent of assets. Over the same period, IRA assets held in mutual funds increased from $2.6 billion to $822.1 billion, or from 7.1 percent of IRA assets to 42.2 percent (table 4).

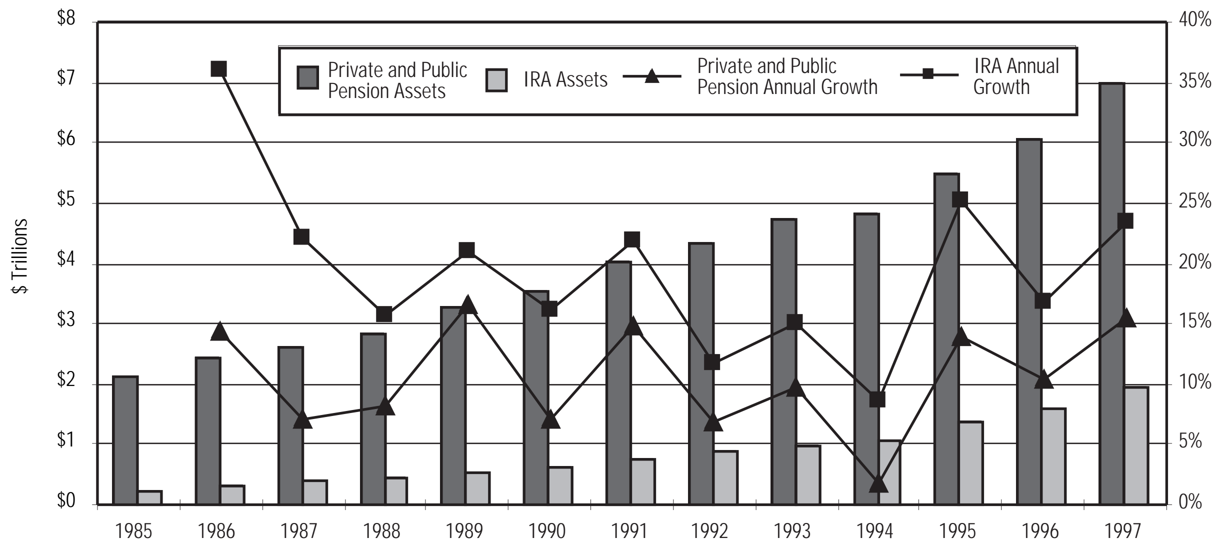
Since the early 1980s, IRA plan assets have increased both in absolute levels and as a percentage of tax-preferred retirement savings, as rollovers have shifted assets out of employment-based plans into IRAs. By the end of 1997, total tax-preferred retirement assets totaled roughly $9.0 trillion (chart 1).[5]

In 1985, IRA assets represented 9.9 percent of tax-preferred retirement assets, increasing to 21.8 percent at year-end 1997. Both private and public pension plan assets and IRA assets grew each year between 1985 and 1997, with IRA assets growing at a faster rate in every year except 1989 (chart 1). Between 1985 and 1997, IRA assets grew at an average annual rate of 19.5 percent (calculated from table 1), while private and public pension plan assets increased at an average annual rate of 10.5 percent.[6]

Between 1987 and 1990, regular contributions to IRAs totaled $68.4 billion, compared with $219.6 billion in rollover contributions.[7]

In the absence of rollover lump-sum distributions, IRAs (net of investment income) would have grown by 3 percent and employ-

Chart 1
**Annual Percentage Growth and Levels of Individual Retirement Accounts and Private and Public Assets, 1985–1997**




Source: Employee Benefit Research Institute, Pension Investment Report, first quarter 1998 (Washington, DC: Employee Benefit Research Institute, 1998); and Investment Company Institute.

ment-based plans by 10.8 percent between 1987 and 1990, compared with the actual average annual growth rates of 16.5 percent and 9.1 percent, respectively.[8]

### *Effects of Changes in Retirement Policy*

Through enactment of the Employee Retirement Income Security Act of 1974 (ERISA), Congress required employers to provide advance funding of private employer defined benefit pension plans, established minimum standards in a number of areas to increase benefit entitlement, and provided workers lacking employment-based plans with the opportunity to defer taxes by establishing IRAs. The Economic Recovery Tax Act of 1981 expanded IRA availability to all workers in 1982. Subsequent legislation, representing a shift in federal policy, restricted amounts that could be contributed to employment-based retirement plans, limiting assets that could be maintained by a plan relative to benefits promised and restricting tax-deductible contributions to IRAs for some individuals. Enactment of the Tax Equity and Fiscal Responsibility Act of 1982 reduced contribution and benefit dollar limits for all private and state and local plans by nearly one-third. The Tax Reform Act of 1986 (TRA '86) further restricted qualified private and state and local plans and limited eligibility for making the maximum allowable tax deductible contribution to an IRA.[9]

Growth in the number of IRA arrangements flattened after 1987, reflecting the modified deduction limitations of TRA '86. The impact of TRA '86 in limiting IRA participation is apparent from the Internal Revenue Service data. In 1985, the number of reporting units claiming an IRA deduction reached a high of 16.2 million, or 15.9 percent of all returns. By 1993, 4.4 million, or 3.8 percent, reporting units claimed an IRA deduction.[10]

### *IRA and 401(k) Expansions*

Proposals to expand IRAs have received a great deal of attention since the 104th Congress. Not only was IRA expansion a component of the House Republican Contract with America, it was also part of President Clinton's "Middle Class Bill of Rights." Consequently, IRA expansions occurred in both 1996 and 1997.

For example, the Small Business Job Protection Act of 1996 expanded IRAs in two ways. First, it allowed for increased tax-deductible IRA contributions for nonworking spouses. Second, it created a new retirement vehicle, the savings incentive match plan for employees (SIMPLE), for businesses with 100 or fewer employees that do not maintain another employment-based retirement plan. A SIMPLE

plan can be set up as an IRA for each employee or it can be in the form of a 401(k) plan. Under the SIMPLE plan, each employee earning at least $5,000 annually (for two prior years and the current year) is eligible to make elective, pretax contributions up to $6,000 (indexed), and the employer is obligated to make either dollar-for-dollar matching contributions up to 3 percent of pay or a 2 percent nonelective contribution for all eligible employees. Under the matching contribution option, the employer may provide matching contributions of less than 3 percent of pay in elective contributions (but not less than 1 percent of pay) in two out of five years. The amount of compensation considered for these plans is capped at $160,000, these plans are not subject to nondiscrimination rules, and all contributions must be 100 percent vested immediately. This act encourages savings through both IRAs and 401(k) plans by making it easier for small employers to set up these plans. As a result, we could see increased contributions to IRAs in the form of new contributions as opposed to mostly rollover contributions.

With the recently enacted Taxpayer's Relief Act of 1997 (TRA '97), the landscape of IRAs has changed dramatically. In fact, the "retirement" in "IRA" has become somewhat misleading, since IRAs can now be used to fund first-time home purchase and college expenses without incurring the 10 percent penalty tax currently applied to distributions occurring before age 59 1/2. In addition to expanding eligibility for currently existing deductible IRAs and allowing the accumulated funds to be used, without penalty, for purposes other than retirement, the act also created a new, nondeductible IRA, the Roth IRA. This type of IRA can be used not only to save for retirement but also for a first-time home purchase and college, without triggering the penalty tax associated with distributions taken before age 59 1/2. More individuals will be eligible for the Roth IRA than for the deductible IRAs. Finally, the act created a nondeductible education IRA.[11]

### *Policy Implications*

The expansion of IRAs results in more questions than answers. First, we do not know if IRA expansions will increase personal savings. They may only result in a reallocation of individuals' portfolios to maximize the benefit of preserving capital in a tax-preferred vehicle. However, it is reasonable to expect that financial institutions and financial planners will market IRAs more aggressively as an investment vehicle for retirement and other purposes, which may result in new savings. Second, we do not know how many consumers will use IRAs to save for nonretirement purposes and avoid penalty taxes. Third, we do not know how IRS reconversion rules will affect the balance between traditional IRAs and Roth IRAs.

Ultimately, any "leakage" of savings out of retirement plans will have an impact on retirement income security, with significant policy implications.

### *Endnotes*

[1] *Investment Company Institute, "Mutual Funds and the Retirement Market,"* Fundamentals *(July 1998).*

[2] *See Jason S. Scott and John B. Shoven, "Lump-Sum Distributions: Fulfilling the Portability Promise or Eroding Retirement Security?"* EBRI Issue Brief *No. 178 (Employee Benefit Research Institute, October 1996); and Paul Yakoboski, "Large Plan Lump-Sums: Rollovers and Cashouts,"* EBRI Issue Brief *No. 188 (Employee Benefit Research Institute, August 1997).*

[3] *Effective January 1, 1997, nonworking spouses are allowed to contribute up to $2,000 annually (as opposed to $250) to an IRA.*

[4] *Employee Benefit Research Institute estimates based on data in the EBRI Pension Investment Report, first quarter 1998 (Washington, DC: Employee Benefit Research Institute, 1998); the Investment Company Institute; the American Council of Life Insurance; the Federal Retirement Thrift Investment Board; and the Department of Defense, Office of the Actuary.*

[5] *Calculated from the* EBRI Pension Investment Report, *first quarter 1998 (Washington, DC: Employee Benefit Research Institute, 1998).*

[6] *Paul Yakoboski, "Retirement Program Lump-Sum Distributions: Hundreds of Billions in Hidden Pension Income,"* EBRI Issue Brief *No. 146 (Employee Benefit Research Institute, February 1994).*

[7] *Employee Benefit Research Institute calculations.*

[8] *TRA '86 restricted IRA deductions by establishing a phaseout of the maximum allowed IRA deduction, ($2,000 per worker) for single taxpayers participating in an*

*employment-based qualified retirement plan and with adjusted gross incomes (AGIs) between $25,000 and $35,000 a year. IRA deductions for married couples filing jointly are phased out at AGIs between $40,000 and $50,000. These restrictions apply to joint filers if either spouse participates in an employment-based qualified retirement plan. Married couples filing separately are not affected by their spouse's pension plan participation. However, if they participate in an employment-based qualified retirement plan, their IRA deduction eligibility is phased out between AGIs of $0 and $10,000.*

[9] *U.S. Department of the Treasury, Internal Revenue Service,* Statistics of Income Bulletin *(Winter 1984–1985, 1986–1987, 1990–1991, and 1993–1994); and* Statistics of Income Bulletin *(Summer 1995).*

[10] *For more details on these plans, see Paul Yakoboski and William Pierron, "IRAs: It's a Whole New Ballgame,"* EBRI Notes*, No. 9 (September 1997): 1–4.*

[11] *The IRS has acted to limit the tax benefit an individual may gain by successive reconversions of traditional IRAs to Roth IRAs, a tactic designed to take advantage of the recent market downturn. Additional information can be found in the recent IRS Notice 98-50.*

# Washington Update

**By Bill Pierron, EBRI**

### *The New Leadership in Congress/Views on Benefits*

Rep. Bob Livingston (R-LA) will assume the post of Speaker of the House on Jan. 6, when the 106th Congress convenes. The current second-ranking House Republican, Majority Leader Dick Armey (R-TX) was re-elected to that post, and Majority Whip Tom Delay (R-TX) also retained his third-ranking spot in the leadership. Rep. J.C. Watts (R-OK), will be the new chairman of the Republican Conference, the fourth-ranking GOP position. House Democratic leadership is unchanged, and Senate leadership is expected to remain the same.

**Outlook:** It is too early to tell whether the changes in leadership will affect the outlook for benefits legislation. Livingston has vowed to make Social Security a top priority (see below), but his views on other benefits-related issues are less clear. Livingston signed on as a cosponsor to the Patient Access to Responsible Care Act, as well as other managed care reform bills, but has not taken a strong public stance on health care reform. Watts, who will oversee the development of GOP policy, has supported medical savings accounts, but has not taken a strong stance on other items of interest to the benefits community. Armey has supported fundamental reform of the Internal Revenue Code, and will continue to support proposals to establish a "flat tax" system.

### *Social Security and the November Elections*

According to the Voter News Service exit polls, 12 percent of voters nationwide named Social Security as the issue that mattered most in making their choices, ranking fourth below education (19 percent), "moral and ethical standards" (19 percent), and the economy (14 percent). Among voters who considered Social Security the most important issue, 60 percent voted for Democrats.

Social Security played a key role in a number of U.S. Senate races. In New York, 21 percent of the voters who chose the winner, Rep. Charles Schumer (D-NY), named Social Security and Medicare as the most important issue, ranking second behind education (28 percent). In contrast, the most important issues for voters who chose Sen. Alfonse D'Amato (R-NY) were the economy and jobs (20 percent) and taxes (15 percent). In North Carolina, voters who selected the winner, John Edwards (D), named Social Security as the most important issue (26 percent), while 24 percent of those who voted for Sen. Lauch Faircloth (R) cited the Clinton/Lewinsky matter. In California, 18 percent of the individuals who voted for the winner, Sen. Barbara Boxer (D), said that Social Security was the issue that mattered most, ranking second behind education (23 percent).

In Washington state, Social

Security was cited as the issue that mattered most by 20 percent of the voters who re-elected Sen. Patty Murray (D), ranking second behind education (29 percent), while 28 percent of those who voted for Rep. Linda Smith (R-WA) cited taxes. In Wisconsin, 31 percent of the voters who re-elected Sen. Russ Feingold (D) said Social Security was the issue that mattered most, compared with 21 percent of those who chose Rep. Mark Neumann (R-WI). In Kentucky, Social Security was an issue largely because the GOP candidate, Rep. Jim Bunning, had chaired the House Ways and Means Social Security Subcommittee (Bunning narrowly won). Exit polls found that 31 percent of the voters who supported Rep. Scotty Baesler (D-KY) cited Social Security as the most important issue, while taxation was the most important issue for those who supported Bunning (19 percent). Social Security was also important in Illinois, where 24 percent of those who voted for Sen. Carol Moseley-Braun (D-IL) said it mattered most to them. Only 15 percent of those who voted for the victor, Peter Fitzgerald (R-IL), named Social Security the most important issue. In Wisconsin, newly elected Rep. Tammy Baldwin (D) put health care reform and "protecting" Social Security at the top of her agenda in her race to win the seat formerly held by retiring Rep. Scot Klug (R-WI). Similarly, Patrick Toomey (R-PA) made Social Security privatization a key issue in winning the race to fill the seat of retiring Rep. Paul McHale (D-PA).

## Keeping on Track

The following items are listed to keep you up-to-date on issues that were not specifically addressed in *Washington Update*.

***Treasury Releases FY 1999 Agenda***—On Nov. 9 the Treasury Department published its semiannual regulatory agenda (63 FR 61331, 62203) describing the agency's high-priority regulatory projects for 1999. Projects in the works include final regulatory guidance on the tax treatment of qualified plan loans and final regulations on Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA) taxation of certain deferred compensation and salary reduction arrangements. Also under way is guidance concerning the notice required to be given to plan participants regarding reductions in future benefit accruals.

***PWBA Studying Health Plan Liability***—The Department of Labor's Pension and Welfare Benefits Administration is undertaking a study of the impact of potential increases in health plan liability on plan sponsors and managed care plans. It will look at recent proposed legislative changes in ERISA preemption and will attempt to assess their impact on plan costs, coverage decisions, and plan structure. The study may be released as early as Spring 1999.

***PBGC Developing Pension Incentives***—The Pension Benefit Guaranty Corporation (PBGC) has been developing a list of legislative proposals designed to prompt more employers to offer defined benefit plans. PBGC has solicited input from plan sponsors, administrators, and others to develop proposals in three key areas: 1) incentives to establish plans, 2) flexibility in administering plans, and 3) reducing complexity. These proposals will be incorporated into the Clinton administration's budget next year. Of interest is the fact that PBGC is emphasizing individual account and cash balance plans, paid out as annuities, as the best route to creating new plans. Executive Director David Strauss has called for input from all interested parties, and those who wish to contribute ideas or comments may contact him at (202) 326-4010 or strauss.david@pbgc.gov.

***CHEC Gets Under Way***—EBRI has joined with a number of other organizations in creating the Consumer Health Education Council (CHEC). CHEC will be a part of the EBRI Education and Research Fund (ERF). The Council, which already includes EBRI, the American Hospital Association, and the Milbank Memorial Fund, will educate consumers about the need for health insurance and their available options; provide tools that consumers can use to choose a health plan and navigate the system; and offer information on the importance of economic and demographic issues to health status and health needs. The Council will also encourage employers, unions, and other plan sponsors to offer health benefits and health education programs. Anyone interested in obtaining more information about CHEC should contact Paul Fronstin, at (202) 775-6352, or fronstin@ebri.org. Please visit the CHEC Web site (www.healthchec.org) for continuing developments.

**Outlook:** The Clinton administration and the new Speaker of the House, Rep. Livingston, understand that voters care about Social Security and have indicated that Social Security reform will be on the agenda in 1999. As his first legislative priority, Livingston plans to introduce a bill to take Social Security "off budget," a move that has been opposed by members of both parties in the past. Under the current budget rules, Social Security payroll tax revenues and benefit outlays are included as components of the unified federal budget. Because Social Security currently takes in approximately $100 billion more per year than it pays out, removing it from the budget calculus would create an immediate $40 billion *deficit* and an aggregate deficit over the next 10 years. Should Congress approve the Livingston proposal, it would affect tax, Social Security, and budget policy. On Nov. 18, the House Ways and Means Committee held its first post-election hearing on "advancing the upcoming debate" over reforming the Social Security system. As expected, the hearing avoided specifics of reform, and members of Congress and the administration sparred over who would go first in introducing a comprehensive reform proposal.

## EBRI in Focus

### *EBRI Board Meets*

The EBRI-ERF Board of Trustees met Dec. 2–3 in Washington, DC, and set priorities for 1999. Among the major actions taken, the Board approved: creation of a Consumer Health Education Council (CHEC) within the EBRI Education and Research Fund; a May 1999 policy forum on the implications of tax reform for employment-based health benefits; and a 1999 series of monthly briefings to be co-sponsored with the National Press Foundation.

### *EBRI Research Adds To Social Security Debate*

EBRI's November *Issue Brief* on the hurdles to privatizing Social Security has proved to be both timely and effective at focusing public attention on the logistical issues involved with individual Social Security investment accounts.

The *Issue Brief*, "Individual Social Security Accounts: Issues in Assessing Administrative Feasibility and Costs," was released at news conference Nov. 12 at the National Press Club in Washington, DC, and generated considerable news coverage. Among various other news outlets, it was the focus of a nationally syndicated feature by Jane Bryant Quinn, the financial columnist, published in the *Washington Post* and other newspapers.

EBRI President and CEO Dallas Salisbury, and report co-author Kelly Olsen, have been meeting with reporters, analysts, and government officials to discuss the report. The *Issue Brief* was submitted as testimony at a Social Security hearing held by the House Ways and Means Committee on Nov. 19. This was the first post-election congressional hearing on Social Security reform, and is a prelude to expected legislative action by the 106th Congress that convenes in January.

The EBRI analysis is the first detailed public report that objectively examines the practical issues surrounding how to administer Social Security individual accounts and the costs of doing so. The 48-page report takes no position for or against individual accounts.

In addition, EBRI on Dec. 7 will release a unique survey of small-business owners about their opinions on sharing administrative costs and burdens of a privatized Social Security system. The results will be reported in next month's *EBRI Notes.*

### *Women's Retirement Confidence Survey*

EBRI research staff presented the findings of the 1998 Women's Retirement Confidence Survey (WRCS) at a Nov. 12 press luncheon held in conjunction with the National Women's Forum on Retirement Education at the National Press Club in Washington, DC.

The WRCS results were pre-

sented by Pam Ostuw of EBRI and Jennifer Hicks of Mathew Greenwald & Associates (MGA). Later that day, the two researchers also presented the findings at the Forum held at the National Museum of Women in the Arts, also in Washington, DC, to promote greater national awareness of the need for women to prepare for their retirement future.

The WRCS findings are part of an independent analysis of women's attitudes and behavior regarding retirement savings based on data from the 1998 Retirement Confidence Survey (RCS). The annual RCS, co-sponsored by EBRI, the American Savings Education Council (ASEC), and MGA, is a national survey that has been conducted since 1991.

A summary of findings for the WRCS is available at ASEC's Web site: www.asec.org. The Forum was co-sponsored by ASEC, the Center for Retirement Education, and the National Association of Female Executives. Both the Forum and WRCS are underwritten by American General Retirement Services/ VALIC. For more information, contact Pam Ostuw at (202) 775-6315 or ostuw@ebri.org.

### *December 1998 Policy Forum*

EBRI-ERF held a well-attended policy forum Dec. 2 that helped focus attention on the logistical hurdles facing privatization of Social Security. The policy forum, "Beyond Ideology: Are Individual Social Security Accounts Feasible?" allowed for a detailed examination of the administrative issues surrounding the implementation and operation of a "privatized" individual account Social Security system. These issues also are analyzed in depth in the November *EBRI Issue Brief* (see story above).

Speakers and attendees included experts from the Social Security Administration, the financial services industry, and businesses, who discussed whether individual accounts are administratively feasible and, if so, what types of constraints administrative factors would impose on account design. A portion of the all-day event featured analysis from the EBRI-SSASIM2 Policy Simulation Model. An executive summary of the forum will appear in a future issue of *EBRI Notes,* and a book based on the proceedings will be published by Spring 1999. Background materials used at the policy forum are available on EBRI Online at www.ebri.org.

### *1999 Retirement Confidence Survey*

Work has begun on the 1999 Retirement Confidence Survey (RCS), the 1999 Minority RCS Report, and the 1999 Small Employer Retirement Survey.

The 1998 Retirement Confidence Survey (RCS) and the first Small Employer Retirement Survey (SERS), were released in June in conjunction with the 1998 National Summit on Retirement Savings. Both surveys had tremendous impact, as they were extensively cited in the news media and used by policymakers, and they continue to inspire and inform public dialogue on retirement savings issues.

If your organization is interested in helping to underwrite these projects, or if you would like to learn more about them, contact either Paul Yakoboski at (202) 775-6329 (e-mail yakoboski@ebri.org) or Pam Ostuw at (202) 775-6315 (e-mail ostuw@ebri.org).

As an example of the enduring interest in RCS results, Paul Yakoboski, EBRI senior research associate, presented the findings of the 1998 Retirement Confidence Survey, Minority Retirement Confidence Survey, and Small Employer Retirement Survey at the annual meetings of the Gerontological Society of America in Philadelphia on Nov. 21. Yakoboski also discussed the retirement preparations and readiness of today's workers at another conference session.

## New Publications & Internet Sites

[*Note: To order publications from the U.S. Government Printing Office (GPO), call (202) 512-1800; to order congressional publications, call (202) 512-2470. To order U.S. General Accounting Office (GAO) publications, call (202) 512-6000; to order from the Congressional Budget Office (CBO), call (202) 226-2809*].

- ***Aging***

Wise, David A. **Frontiers in the Economics of Aging**. $60. University of Chicago Press, Order Dept., 11030 South Langley Avenue, Chicago, IL, 60628, (800) 621-2736, Fax (800) 621-8476.

- ***Employee Benefits***

Ding, Mae Lon. **Survey Sources for U.S. and International Employee Pay and Benefits**. $265 + $8.50 S&H. Personnel Systems Associates, 7551 E. Moonridge Lane, Anaheim, CA 92808, (714) 281-8337.

Hay Group. **1998 Hay Benefits Report: Vol. I: Prevalence of Benefits Practices and Executive Summary**. Study participants, $850; nonparticipants, $1,700. Hay Group, 229 South 18th Street, Rittenhouse Square, Philadelphia, PA 19103-6138, (215) 875-2300.

- ***Health Care***

Brenden, Jason A., and Richard L. Hamer. **The Interstudy HMO Trend Report: Reporting Data from December 31, 1986 to January 1, 1997**. For cost information, phone (800) 844-3351; Interstudy Publications, 2901 Metro Drive, Suite 400, Bloomington, MN 55425.

- ***Pension Plans/Retirement***

National Association of Government Deferred Compensation Administrators. **1997 Survey of 457 Plans**. NAGDCA members, $75; nonmembers, $100 + S&H. NAGDCA, 167 W. Main Street, Suite 600, Lexington, KY 40507, (606) 231-1904, Fax (606) 231-1928.

Profit Sharing/401(k) Council of America. **Annual Survey of Profit Sharing and 401(k) Plans: Reflecting 1997 Plan Year Experience**. PSCA members, $75; nonmembers, $195. Profit Sharing/401(k) Council of America, 10 S. Riverside Plaza, Suite 1610, Chicago, IL 60606-3802, (312) 441-8550.

- ***Social Security***

Feldstein, Martin. **Privatizing Social Security**. $59.95. University of Chicago Press, Order Dept., 11030 South Langley Avenue, Chicago, IL, 60628, (800) 621-2736, Fax (800) 621-8476.

Gramlich, Edward M. **Is It Time to Reform Social Security?** $24.95. University of Michigan Press, 839 Greene Street, P.O. Box 1104, Ann Arbor, MI, (313) 764-4392, Fax (313) 936-0456.

***Documents Available on the Internet***

**Job-Based Health Insurance 1987 and 1996**
www.meps.ahcpr.gov/papers/98-0032/98-0032.htm

**Managing Multiemployer Health Fund Benefits**
www.ifebp.org/pdf/mmhfb.pdf

**Medicare Beneficiaries with Additional Medical Insurance in 1997**
www.dhhs.gov/progorg/oei/reports/a280.pdf

**The Predictability of Retirement Income**
www.idsonline.com/nasi/ssbr3.htm

**Social Security Money's Worth**
prc.wharton.upenn.edu/prc/98-9.PDF

***Internet Sites on IRAs***

**The Brookings Institution**
www.brook.edu

**Employee Benefit Research Institute**
www.ebri.org

**ICI Mutual Fund Connection**
www.ici.org

**Internal Revenue Service**
www.irs.ustreas.gov

**Retirement-Information**
www.retirement-information.com

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The Employee Benefit Research Institute (EBRI) was founded in 1978. Its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI is the only private, nonprofit, nonpartisan, Washington, DC-based organization committed exclusively to public policy research and education on economic security and employee benefit issues. EBRI's membership includes a cross-section of pension funds; businesses; trade associations; labor unions; health care providers and insurers; government organizations; and service firms.

## What we do

EBRI's work advances knowledge and understanding of employee benefits and their importance to the nation's economy among policymakers, the news media, and the public. It does this by conducting and publishing policy research, analysis, and special reports on employee benefits issues; holding educational briefings for EBRI members, congressional and federal agency staff, and the news media; and sponsoring public opinion surveys on employee benefit issues. **EBRI's Education and Research Fund** (EBRI-ERF) performs the charitable, educational, and scientific functions of the Institute. EBRI-ERF is a tax-exempt organization supported by contributions and grants.

## Our publications

***EBRI Issue Briefs*** are monthly periodicals providing expert evaluations of employee benefit issues and trends, as well as critical analyses of employee benefit policies and proposals. ***EBRI Notes*** is a monthly periodical providing current information on a variety of employee benefit topics. **EBRI's *Pension Investment Report*** provides detailed financial information on the universe of defined benefit, defined contribution, and 401(k) plans. **EBRI *Fundamentals of Employee Benefit Programs*** offers a straightforward, basic explanation of employee benefit programs in the private and public sectors. **The *EBRI Databook on Employee Benefits*** is a statistical reference volume on employee benefit programs and work force related issues.

## Subscriptions/orders

Contact EBRI Publications, (202) 659-0670; fax publication orders to (202) 775-6312. Subscriptions to *EBRI Issue Briefs* are included as part of EBRI membership, or as part of a $199 annual subscription to *EBRI Notes* and *EBRI Issue Briefs.* Individual copies are available with prepayment for $25 each (for printed copies) or for $7.50 (as an e-mailed electronic file) by calling EBRI or from www.ebri.org. ***Change of Address:*** EBRI, 2121 K Street, NW, Suite 600, Washington, DC 20037, (202) 775-9132; fax number, (202) 775-6312; e-mail: Publications Subscriptions@ebri.org. ***Membership Information:*** Inquiries regarding EBRI membership and/or contributions to EBRI-ERF should be directed to EBRI President Dallas Salisbury at the above address, (202) 659-0670; e-mail: salisbury@ebri.org

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